

SECTION II

INVENTORY CONTROLS

.01 GENERAL INVENTORY CONTROLS

- A. Each agency is vested with the responsibility for the control, care, maintenance and security of all State property within its organization regardless of its value.
- B. Systems used for controlling inventory will vary among agencies and may even vary within an agency. This is resultant from agency size, complexity of operation, the number and variety of items to be controlled, etc. For this reason the Department of General Services does not prescribe a specific system for use by all agencies. However, the Department of General Services does prescribe basic inventory control standards. These standards are minimum requirements that must be met by any system, computerized or manual, for controlling inventories of State property. Agencies are responsible for establishing additional controls as appropriate and as circumstances warrant.

.02 CONTROLS FOR LAND, BUILDINGS AND IMPROVEMENTS THERETO

A. Record Keeping Requirements

For each State owned parcel of land and building within an organization's responsibility, the following minimum data shall be maintained:

- 1. Land or Building identification.
- 2. Construction cost code and contractor (or seller).
- 3. Acquisition cost and date.
- 4. The physical location of the land or building.
- 5. The source of funds and the amount (If more than one fund source, so indicate).
- 6. Payments to contractors, subcontractors, vendors, etc. for building construction, land and improvements thereto shall be recorded as they occur for each involved fund. Total payments completed to date should be reported at the end of each fiscal year.

7. Justification and authorization reference for transfer or disposal.

In manual systems, Form DGS-950-4 in (Section VI) is the recommended format for recording required information. Computerized systems shall have the capability to maintain and report required information.

B. Physical Inventories

Physical inventories do not apply to land, buildings and improvements thereto.

C. Reconciliation of Property Records

1. Control accounts shall be maintained for buildings, land, and improvements thereto. A control account is a summarized history of real property acquisitions, improvements and disposals and is maintained independent of the detail property records. A sample format for an inventory control account appears as Exhibit 1 in Section VI. The ending balance of an account should equal the beginning balance plus acquisitions (improvements) less disposals for the period being reported. Detail inventory records for land and buildings shall be reconciled at least annually with the covering control account. The total dollar value of the detail inventory records covered by a control account should equal the account balance. If there is a difference, the transactions recorded during the period shall be analyzed and the necessary adjustments made to the inventory records or to the control account as appropriate.
2. Adjustments to a control account balance shall be approved by someone in authority not below the level of Chief Administrative Officer (or designee) of an institution or major unit within a department or independent agency.
3. The final annual reconciliation shall be certified in writing by someone in authority not below the level of Chief Administrative Officer (or designee) of an institution or major unit within a department or independent agency. The certification shall be kept on file in the organization for audit purposes.

D. Reporting Requirements

At the end of each fiscal year, State agencies shall use the Annual Report of Fixed Assets - Exhibit 2 (See Section VI), to report the value of fixed assets which includes land, buildings and improvements thereto, equipment and construction in progress. This form must be prepared and forwarded to the Department of General Services along with an itemized

inventory listing including property description and dollar value. This information shall be submitted to DGS on or before July 15th of each year.

E. Disposal of Lands and Buildings

The disposal of land and buildings is governed by regulations promulgated by the State Clearinghouse for Intergovernmental Assistance, Office of Planning.

.03 CONTROLS FOR CAPITAL EQUIPMENT (EQUIPMENT COSTING ** \$100 ** OR MORE AND SENSITIVE ITEMS COSTING ** \$50 ** OR MORE)

The Board of Public Works has delegated to the Department of General Services authority to allow custodial agencies to increase the threshold for capitalizing equipment assets to as high as \$500.00 for non-sensitive items and to as high as \$250.00 for sensitive items. Refer to Appendix VII for instructions and procedures.

A. Record Keeping Requirements

A procedure for maintaining a capital equipment inventory system, manual or computerized, shall be written and implemented. A copy of the procedure shall be retained on file for reference and audit purposes.

These requirements are applicable to each State owned item of capital equipment within an organization's responsibility and on loan to the organization (refer to Section III .03 for additional information).

The following minimum data shall be maintained:

1. Item identification consisting of at least the agency property identification number and description (refer to .03 E. of this Section)
2. Name of supplier and purchase order or other acquisition document number.
3. Acquisition cost and date.
4. Physical location of item.
5. Serial number, if any.
6. Source of funds.
7. Most recent physical inventory date.

8. Justification and authorization reference for transfer or disposal.
9. Detail inventory records and control accounts shall be maintained by category (equipment, motor vehicles, livestock) of fixed assets.

In manual systems, Form DGS-950-2 (Section VI) is the recommended format for recording equipment information. Form DGS-950-3 (Section VI) is recommended for motor vehicles, and Form DGS-950-5 (Section VI) is recommended for livestock. Computerized systems shall have the capability to maintain and report required information.

B. Physical Inventories

1. Capital Equipment

- a. Sensitive Items - A complete physical inventory shall be taken at least once each year.
- b. Non-Sensitive Items - A complete physical inventory shall be taken at least once every three years.

It is not necessary that the physical inventory be taken in its entirety on a given date. Periodic checks may be made throughout the period between inventory cycles. However, by the end of each cycle, all items shall have been physically checked.

2. Non-Capital Equipment

Physical Inventories are not required.

3. Physical Inventory Documentation Requirements

A record of the capital equipment physical inventory (i.e. procedures, count sheets, etc.) shall be maintained until after the next legislative audit has been completed and as prescribed by the agency's record retention schedule.

C. Reconciliation of Inventory Records

1. When the physical inventory is taken, inventory records shall be checked against the items inventoried to assure that records exist for each item, and that records for missing items are investigated, reported and removed in accordance with the procedures in Section V.
2. An inventory control account is a summarized history of acquisitions and disposals, and shall be maintained for each category of capital equipment independent of the detail records in

either an automated or manual system. A sample format for an inventory control account appears as Exhibit 1 in Section VI. The ending balance of a control account should be equal to the net value of the beginning balance plus acquisitions less disposals for the period being reported. Inventory records for capital equipment shall be reconciled with the covering control account at least quarterly for computerized systems and at least twice annually for manual systems. The total dollar value of inventory records covered by a control account should equal the account balance. If there is a difference, the transactions recorded during the reconciliation period shall be analyzed and the necessary adjustments made to the inventory records or to the control account as appropriate.

3. Adjustments to a control account balance or to the inventory records shall be approved by someone in authority not below the level of Chief Administrative Officer (or designee) of an institution or major unit within a department or independent agency.
4. The final control account reconciliation shall be certified in writing by someone in authority not below the level of Chief Administrative Officer (or designee) of an institution or major unit within a department or independent agency. The reconciliation data and the certification shall be kept on file in the organization for reference and audit purposes and as prescribed by the agency's record retention schedule.

D. Reporting Requirements

At the end of each fiscal year, State agencies shall use the Annual Report of Fixed Assets - Exhibit 2 (See Section VI), to report the value of fixed assets which includes land, buildings and improvements thereto, equipment and construction in progress. This form must be prepared and forwarded to the Department of General Services along with an itemized inventory listing including property description and dollar value. This information shall be submitted to DGS on or before July 15th of each year.

E. Equipment Identification

1. Capital equipment items shall be marked with a property identification number and the words "Property of the State of Maryland". Agency designation is optional. The marking shall be conspicuously located on the top or side of items so as to be readily seen, and shall be applied in a neat and tasteful manner. (See Appendix V for recommended identification procedures.)

- a. Permanent type labels that cannot be removed without damage to the item will be used on all capital equipment items.
- b. If permanent type labels are not practical, the surface of the items shall be etched or indelibly marked.

F. Disposal of Serviceable and Unserviceable Capital Equipment

Refer to Section IV for the disposal and removal of serviceable and unserviceable capital equipment from inventory records.

G. Disposal of Property Acquired Under a Federal Grant or Cooperative Agreement

Unless specified in the grant or agreement, equipment and furnishings acquired under Federal Grants or Cooperative Agreements will be disposed of in accordance with the procedures in Section IV.

.04 CONTROLS FOR NON-CAPITAL EQUIPMENT

Each agency is vested with the responsibility for the control, care, maintenance and security of all State property within its organization regardless of its value.

A. Record Keeping Requirements

Equipment serial numbers shall be recorded since they are required when reporting property that is stolen or missing. There are no other record keeping requirements.

B. Physical Inventories

Physical inventories are not required.

C. Reporting Requirements

Inventory values should not be reported to the Department of General Services.

D. Equipment Identification

Non-Capital equipment items shall be marked with the words "Property of the State of Maryland". Identification numbers are not required, and the agency designation is optional. The marking shall be conspicuously located on the top or side of an item so that it can be readily seen. A permanent type label that cannot be removed without damage to the item may be used as well as engraving or indelible marking. (See Appendix V for recommended identification procedures.)

E. Non-Capital Equipment Maintained As Inventory Stock

A non-capital equipment item that is maintained in inventory for issue to users shall be recorded as a material and supply item (refer to .05, A. of this Section) as long as it remains in inventory. When issued from the material and supplies inventory to a user, an item becomes a non-capital equipment item in the user's program.

F. Disposal of Unserviceable Items

Items that are unserviceable and not economical to repair should be placed on a scrap pile or junked. Disposal by scrapping or junking shall be approved by the agency Property Officer.

G. Disposal of Serviceable Items

Serviceable items that are no longer needed by an agency shall be reported to the Department of General Services in accordance with the procedure in Section IV.

H. Disposal of Property Acquired Under a Federal Grant or Cooperative Agreement

Unless specified in the grant or agreement, equipment and furnishings acquired under Federal Grants or Cooperative Agreements will be disposed of in accordance with the procedures in Section IV.

.05 CONTROLS FOR MATERIALS AND SUPPLIES

A. Record Keeping Requirements

1. Perpetual inventory records provide information necessary to manage and control inventories, and shall be maintained if:
 - a. The average grand total of the last three inventory values, reported on the Form DGS-950-1 (Section VI) for a department, independent agency or sub-unit thereof, is at least \$ 25,000; OR
 - b. If the averages for the last three years of annual expenditures in object codes 05 and 09 for a department, independent agency or sub-unit thereof, exceeds \$250,000.
 - c. Exemptions to this policy must be approved in writing by the Inventory Standards and Support Services Division of the Department of General Services.

2. When perpetual inventory records are required, a procedure for maintaining a perpetual inventory system, manual or computerized shall be written and implemented. A copy of the procedure shall be retained on file for audit purposes.
3. Perpetual inventory records shall contain, at the minimum, the following information:
 - a. Item identification consisting of a description and State standardized commodity code. (Refer to the National Institute of Governmental Purchasing Commodity/Service Code System Index.
 - b. Quantity Received and Purchase Order or Receiving Ticket Number.
 - c. Quantity Withdrawn and Withdrawal Ticket Number.
 - d. Balance of Inventory on Hand.
 - e. Adjustments to the on Hand Balance and Adjustment Voucher Number.
 - f. Unit of Issue.
 - g. Unit of Issue Cost.
 - h. Supplier's Name, Purchase Order Number, Unit Cost and Order Quantity.

In manual systems, Form DGS-950-7 (Section VI) is the recommended format for keeping perpetual inventory records. Computerized systems shall have the capability to maintain and report required information.

B. Physical Inventories and Cycle Counting

1. Schedule
 - a. Whether or not perpetual inventory records are required, a physical inventory of all items shall be taken within the last ninety days of each fiscal year, preferably at the end of the fiscal year.
 - b. More frequent checks (cycle counts) of high dollar usage items shall be made throughout the year for control purposes. (Refer to Appendix IV, Cycle Counting and Appendix VI, Computerized Systems Requirements.)

2. When taking annual physical inventories, lists of all materials and supplies shall be prepared. Item number, description, unit of issue, last unit of issue cost and the balance on hand expressed in both units and dollars, shall be shown for each item. No discounts shall be used to arrive at unit cost. On hand amounts shall represent physical inventory counts taken at fiscal year end (June 30), or they shall represent perpetual record balances as of June 30 which have previously been verified by physical counts taken within the last ninety days of the fiscal year. The grand total in dollars of all commodities listed shall be used to report the annual value of State property for materials and supplies on Form DGS-950-1. In addition to the DGS-950-1, shall be an itemized listing information including property description and dollar value. This shall be kept on file for the period between Legislative Audits. Form DGS-950-6 (Section VI), is a suggested format for the lists.

3. Reporting Requirements

At the end of each fiscal year, State agencies shall submit an annual report of State property, materials and supplies on a DGS-950-1 (See Section VI) to report the value of materials and supplies. The form is made available by annual mailings from the Department of General Services. It is also available on the DGS's website, at www.dgs@state.md.us. The form must be prepared and forwarded to the Department of General Services along with an itemized listing including property description and dollar value. This information shall be submitted to DGS on or before August 15th of each year.

C. Reconciliation of Inventory Records

1. At the time of physical inventory or cycle count, the perpetual record balance shall be compared to the physical count for each item to confirm record accuracy.
2. If the record balance differs from the physical count, the variance shall be investigated and the record balance adjusted, up or down, to make it equal to the physical count. Each entry to correct a perpetual record balance shall be clearly recorded as an adjustment and not as a withdrawal or receipt. A voucher shall be completed for each adjustment, listing the date, item description, commodity code, unit of issue, unit of issue cost, a plus or minus variance expressed in both units and dollars, the reason for the adjustment and the signature of the approving authority. All adjustment vouchers shall be approved by someone in authority not below the level of Chief Administrative Officer (or designee) of an institution or major unit within a department or independent

agency. All adjustment vouchers shall be retained for audit purposes and in accordance with the agency's record retention schedule.

D. Inventory Levels

Agencies shall establish and record ordering controls such as, maximum stock levels and minimum reorder points, on perpetual inventory records. Ordering controls provide desired levels of stock out protection without incurring unnecessary inventory costs.

1. To keep inventory costs within Statewide guidelines, ordering controls shall produce an overall inventory turnover of at least three times per year. In a practical sense, this can be achieved by not ordering or receiving more than 3-4 months supply of high dollar volume items, or more than 12 months supply of low dollar volume items, whenever stock levels of the individual items reach their reorder points. Using authorities not adhering to this practice may incur excessive or unwarranted inventory costs.
2. In order to provide adequate stock out protection against late deliveries and more than normal usage, it is recommended that the minimum reorder point for any item be equal to its lead time (period of time between issuance of a purchase order until receipt of material) usage plus one month's supply. Levels need not be established for:
 - a. items which are received daily, weekly or purchased on a seasonal basis; or
 - b. items which are stocked for emergency purposes; or
 - c. standby items which protect State property or prevent costly shutdown of operations.

E. Inventory Withdrawals

Withdrawals from materials and supplies inventory shall be controlled by withdrawal tickets prepared in sufficient detail to properly show the quantity and description of items being reported.

1. The withdrawal ticket should be a multi-part form consisting of at least three copies.
 - a. One copy to be retained by the requisitioner for audit and receipt verification purposes,
 - b. One copy to be forwarded to the inventory records keeping function for record updating, and

- c. One copy to be retained by the storekeeper for overall control of completed tickets.
2. Prior to obtaining supplies, withdrawal tickets should be signed by someone in the requisitioning program authorized to approve inventory withdrawals. In emergencies and on occasions when it may not be practical to obtain advance approval, the approval authority shall review and sign all completed, unapproved withdrawal tickets, after the fact, to verify that items withdrawn were properly accounted for.
3. At the time supplies are issued, all storeroom copies of the withdrawal ticket shall be signed by the person receiving supplies.
4. All withdrawal tickets completed by the storeroom should be pre-numbered for reference and control purposes. However, if pre-numbering is impractical, the recommended procedure is to have the storekeeper assign sequential numbers to withdrawal tickets as they are completed.
5. The numerical sequence of posted withdrawal tickets should be monitored by the inventory records keeping function to account for all completed tickets from the storeroom.
6. To assure that items and quantities on posted withdrawal tickets have not been altered, the inventory records keeping function shall compare all copies of random samplings of completed withdrawal tickets.
7. All withdrawal ticket copies shall be retained for the period between legislative audits and as prescribed by the agency's record retention schedule.

F. Disposal of Materials and Supplies Acquired Under a Federal Grant or Cooperative Agreement (also refer to Section IV)

1. If there is a residual inventory of unused materials and supplies of \$5,000 or less in total aggregate of fair market value upon termination or completion of the award, disposal will be in accordance with State procedures in Section IV.
2. If there is a residual inventory of unused materials and supplies exceeding \$5,000 in total aggregate of fair market value upon termination or completion of the award, disposal will be in accordance with Federal regulations. The grantee or subgrantee shall contact the awarding agency for instructions.